2026 Dealmaking Outlook

A Selective Recovery and the Return of Institutional Clearing in the LMM

EXECUTIVE SUMMARY

- The lower middle market (LMM) is emerging from a cyclical trough in 2025 into a selective but real recovery in 2026. This will not resemble 2021. Activity will be led by PE-backed exits, add-ons, and sponsor-to-sponsor transactions, not indiscriminate bidding.
- Improving rate visibility, stabilized private-credit markets, and resetting valuation expectations are allowing deals to clear again—but only for assets that look institutional on financials, diligence, and strategic fit.
- For founders, the next several months matter. In 2026, prepared companies will transact on competitive terms. Unprepared companies will either stall or clear through structure rather than price.

MACRO BACKDROP

Growth and Rates

- Consensus expectations point to modest U.S. growth with low recession probability, supported by cooling inflation and a gradual easing path for policy rates.
- More important than absolute rates is rate predictability, particularly at the long end of the curve. That visibility is improving financing confidence for mid-market and sponsor-backed deals.

Capital Dynamics

- Corporate balance sheets remain generally healthy, and large-cap portfolio reshaping continues to feed carve-outs and tuck-ins into the middle market.
- Private equity firms are managing record dry powder alongside aging portfolios, with increasing LP pressure for realizations after several muted years.

Uncertainty

- Geopolitical and regulatory risk remains elevated, but in practice it is more disruptive to mega-deals than to core mid-market transactions.
- In the LMM, buyers are increasingly underwriting through uncertainty and transacting when fundamentals, strategic logic, and financing align.

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NUMA WAYNE
Capital Advisors is an independent investment banking firm that provides M&A, capital raising, and related strategic advisory services to LMM companies across North America.

Our transaction experience covers a broad range of industries, end markets and business models. We have domain expertise in working with companies serving the healthcare, fitness, and wellness markets.

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WHERE LMM M&A IS HEADING

From cyclical low to measured rebound

- 2025 mid-market M&A volumes sit near a four-year low, well below 2021–2022 levels across most sectors.
- Forward indicators have improved meaningfully: more sell-side mandates launching, more IOIs converting to LOIs, and buyers re-engaging in processes they paused 12–24 months ago.
- The signal is not acceleration—it is normalization. Activity in 2026 is more likely to rise modestly than deteriorate further.

A PE-led clearing process

- The recovery is being driven by structural, not speculative, forces:
  - Capital that needs to be deployed
  - Assets that have exceeded historical hold periods
  - LP expectations for distributions
  - Failed or paused processes returning to market under improved conditions
- Forecasts generally point to low single-digit M&A volume growth in 2026, with a disproportionate pickup in PE-backed exits and add-ons as the system begins to clear.

Market mechanics are improving

- Private-credit markets have stabilized, improving certainty of leverage, terms, and execution, particularly for LMM buyouts and recapitalizations.
- Buyer–seller valuation expectations are converging. Sellers have largely reset from 2021 peaks; buyers are gaining confidence underwriting forward earnings.
- Where gaps remain, they are being bridged through structure rather than stalemate.

DIGITAL HEALTH AND HEALTHY LIFESTYLE AS CORE THEMES

Healthcare and digital health

- Healthcare remains one of the more resilient verticals, with renewed strategic activity even as overall healthcare volumes remain below peak.
- Buyer interest is concentrating around platforms that function as infrastructure, including:
  - Healthcare IT and digital-health tools embedded in workflows (care coordination, productivity, data orchestration, AI-enabled decision support)
  - Diagnostics and at-home testing that anchor longitudinal, preventive, or specialty-care models

Healthy lifestyle as healthcare infrastructure

- The line between wellness and healthcare continues to blur. Nutrition, fitness, weight management, sports, and wellness platforms are increasingly acting as the front door to care, not optional consumer products.

- The most attractive assets are those that:
    - Plug into payer, Medicare Advantage, or employer benefit ecosystems
    - Support food-as-medicine, MSK, metabolic, or behavioral-health use cases
    - Operate as engagement layers or data rails rather than stand-alone consumer brands

Implications for founders

- Digital health and healthy-lifestyle companies that can demonstrate measurable clinical or economic impact, workflow integration, and underwritable unit economics should see outsize interest relative to overall deal volume.
- Assets that look like infrastructure—data, distribution, engagement, or operating rails—will outperform app-like or narrative-driven models in 2026 processes.

DEAL TERMS: 2026 AS A RISK-ALLOCATION MARKET

Earn-outs and contingent consideration

- Earn-outs remain elevated versus pre-2023 norms, particularly in sectors with forward-earnings volatility.
- Structures are becoming shorter, tighter, and more customized, with clearer metrics and narrower definitions around performance triggers.

Consideration mix

- Mixed consideration—cash, rollover equity, and seller paper—is increasingly standard, especially in PE-backed and founder-liquidity transactions.
- Larger private-target deals are reopening with large-cap-style mechanics, including broader use of RWI, tighter escrows, and more defined risk allocation.

Escrows and RWI

- Escrows remain prevalent, often paired with special-purpose escrows for working capital, tax, regulatory, or litigation risk.
- Where RWI is used, general indemnities are narrower, survival periods shorter, and known risks isolated rather than broadly priced.

IMPLICATIONS FOR LOWER-MIDDLE-MARKET FOUNDERS

Volume and selectivity

- Expect a steady rebound in deal flow, particularly for businesses with recurring revenue, defensible niches, and clear integration logic.
- Capital will remain curated. More processes will launch, but dollars will concentrate in assets that minimize execution risk.

Valuation and structure

- As rates ease and competition returns, high-quality companies should benefit from healthier headline valuations.
- Businesses with inconsistent performance or story-driven growth are more likely to clear through structure rather than multiple expansion.

Financing conditions

- Banks and private-credit providers are increasingly supportive of LMM deals, particularly add-ons, though underwriting remains conservative.
- Hybrid structures—senior debt, private-credit, and seller or preferred instruments—will remain common.

BANKER'S PERSPECTIVE: THE PRE-LAUNCH WINDOW

For founders considering a 2026 sale, recapitalization, or meaningful growth raise, the next several months are best used to reduce uncertainty before the market prices it for you.

- **Upgrade financial clarity**
  - Close books cleanly and on time. Resolve revenue recognition, cost allocation, and add-back credibility
  - Build KPI reporting that reflects how buyers and lenders actually underwrite your category
- **Sharpen strategic positioning**
  - Be explicit about where the business sits in the value chain and why an acquirer should buy rather than build
  - In digital health and lifestyle-adjacent sectors, articulate the clinical, economic, or operational leverage, not just growth
- **Pre-clear diligence risk**
  - Address regulatory, reimbursement, data-privacy, IP, and contractual issues before launching a process
  - Clean cap tables and commercial agreements so diligence reinforces valuation instead of eroding it
- **Align on value and terms**
  - Calibrate to today's market, not 2021. Assume some combination of earn-outs, rollovers, and structured risk allocation is normal
  - Optimize for certainty of close and risk-adjusted outcome, not headline price alone

CLOSING THOUGHT

2026 is shaping up as a risk-allocation market, not a speculative one.

Prepared assets will transact. Unprepared ones will wait—or pay for it in structure.

If you're exploring a raise or a sale next year and want an institutional view of your readiness, I'm glad to compare notes.